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Arizona Corporation Commission

DOCKETED

MAY 30 2002

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Attorneys for Arizona Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

12 IN THE MATTER OF THE APPLICATION
13 OF ARIZONA WATER COMPANY, AN
14 ARIZONA CORPORATION, FOR
15 ADJUSTMENTS TO ITS RATES AND
16 CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS NORTHERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-00-0962

FINAL JOINT REPORT

17 Applicant Arizona Water Company ("Arizona Water"), Intervenor Residential Utility
18 Consumer Office ("RUCO") and the Utilities Division ("Staff") hereby submit their Final Joint
19 Report with respect to phase two of the above-entitled rate proceeding concerning the recovery of
20 costs associated with complying with the maximum contaminant level ("MCL") for arsenic,
21 established by the U.S. Environmental Protection Agency, and the issue of rate consolidation. As
22 more particularly indicated below, the parties jointly request that a Procedural Order be issued
23 setting a prehearing conference for the purpose of establishing a schedule for the submission of a
24 formal proposal by Arizona Water and other proceedings and actions necessary to complete phase
25 two of this proceeding in a timely manner.
26

1 **A. Background and Procedural Overview.**

2 On November 22, 2000, Arizona Water filed an application for rate increases for Arizona
3 Water's Northern Group water systems. Arizona Water's Northern Group serves approximately
4 16,000 customers by means of five separate water systems (Sedona, Pinewood, Rimrock,
5 Lakeside and Overgaard). Among other things, Arizona Water sought approval to organize these
6 five systems into two divisions (Sedona and Lakeside) with consolidated rate schedules.

7 Prior to the hearing on this matter, on August 29, 2001, Arizona Water moved for the
8 issuance of a Procedural Order establishing a separate phase of this matter that would be limited
9 to the development of an appropriate methodology to allow the recovery of costs associated with
10 complying with the MCL for arsenic, which will have a significant impact on Arizona Water.
11 Two of the Northern Group systems, Sedona and Rimrock, are served with groundwater that is
12 naturally high in arsenic. Because of the complex policy issues and ramifications associated with
13 this regulatory change and the development of an appropriate cost recovery mechanism, Arizona
14 Water believed that this issue should be considered in a separate phase of the rate proceeding.
15 Both Staff and RUCO agreed with proceeding in this manner, and on October 12, 2001, a
16 Procedural Order was issued granting Arizona Water's motion and establishing a separate phase
17 in the rate proceeding.

18 In Decision No. 64282 (Dec. 28, 2001), the Arizona Corporation Commission ("the
19 Commission") approved rate increases in this docket for Arizona Water's Northern Group
20 systems. In that decision, the Commission confirmed the October 12, 2001 Procedural Order and
21 authorized the docket to remain open for an additional 180 days in order to accommodate the
22 parties' request to attempt to develop a solution for the recovery of costs associated with
23 complying with the MCL for arsenic. In addition, the Commission stated that it would consider
24 Arizona Water's rate consolidation proposal during the second phase of this proceeding.

25 Subsequent to the issuance of the October 12, 2001 Procedural Order, the parties have met
26 on various occasions and have discussed the development of an appropriate mechanism to allow

1 the recovery of costs associated with complying with the MCL for arsenic and the issue of rate
2 consolidation. The parties' initial Joint Report was filed with the Commission on November 30,
3 2001, which summarized the status of the parties' discussions at that time. A second Joint Report
4 was filed on January 30, 2002, which provided an updated summary of the parties' meetings and
5 discussions, as well as other events relating to the MCL for arsenic, including the formation of a
6 joint agency task force dealing with issues relating to arsenic treatment and cost recovery.

7 Under the October 12, 2001 Procedural Order, the parties were to file their final report
8 relating to the second phase of this proceeding by March 31, 2002. Although the parties met on
9 several occasions during the first three months of 2002, and also attended meetings of the funding
10 option subcommittee of the Arizona Department of Environmental Quality's Arsenic Master
11 Plan, the parties were unable to reach an agreement on a proposed procedure. Because the parties
12 agreed that additional discussions regarding an arsenic cost recovery procedure for Arizona Water
13 were appropriate, the parties jointly moved for an extension of time on March 29, 2002, asking
14 that the date for filing a final report be extended by 60 days. In that motion, the parties
15 acknowledged that they may be unable to reach a final agreement on a procedure for arsenic cost
16 recovery and rate consolidation before the extended date for filing a final report, in which case the
17 parties agreed that they would request an extension of the docket so that a hearing may be held.
18 The parties' motion was subsequently granted by Procedural Orders dated April 29, 2002 and
19 May 15, 2002. Thus, at present, the deadline for filing a final report is May 30, 2002.

20 **B. The Parties' Final Positions and Requested Relief.**

21 Following the parties' joint motion for an extension of time to file this final report, the
22 parties, in summary, have met on four occasions and have exchanged proposals and comments
23 regarding the issues that were to be addressed in this second phase of the proceeding. The parties
24 believe that considerable progress has been made in regard to fashioning an appropriate procedure
25 for the recovery of costs related to complying with the MCL for arsenic. While some
26 disagreement continues to exist, the parties believe that they are close enough to reaching a final

1 agreement on this issue that it is appropriate to initiate proceedings before the Commission's
2 Hearing Division that would allow an Administrative Law Judge to review Arizona Water's
3 proposal and areas of disagreement and to make a final recommendation to the Commission.

4 In accordance with the foregoing, Arizona Water, RUCO and Staff stipulate and agree as
5 follows:

6 1. Arizona Water will file its proposed procedure for the recovery of costs associated
7 with complying with the MCL for arsenic pursuant to the schedule established at the proposed
8 prehearing conference. Arizona Water will provide a concise statement explaining its proposed
9 procedure and examples of the schedules that would be filed to obtain rate increases under this
10 procedure, consistent with the materials discussed by the parties.

11 2. Staff and RUCO will have an opportunity to file written comments on Arizona
12 Water's proposal. Such filing may include illustrative schedules or other materials supporting
13 such parties' comments.

14 3. The parties jointly request that the Hearing Division set a prehearing conference as
15 soon as possible to establish deadlines for filing by the parties and to discuss the status of this
16 phase of the proceeding, the necessity of conducting a hearing and other procedural issues to
17 assure prompt completion of this phase. The parties also request that a Procedural Order be
18 issued following the prehearing conference establishing the procedures and requirements for the
19 completion of this phase of the proceeding.

20 4. The parties agree that the date on which the docket in this proceeding is currently
21 scheduled to close, June 27, 2002, should be extended for an appropriate period of time in order
22 to allow for the completion of this phase of the proceeding, including the issuance of a decision
23 by the Commission.

1 DATED this 30th day of May, 2002.

2 ARIZONA CORPORATION COMMISSION

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14 An original and 10 copies of the
15 foregoing was delivered this 30th day of
May, 2002 to:

16 Docketing Supervisor
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19 A copy of the foregoing
20 was delivered this 30th day of
May, 2002 to:

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26 1305174.1/12001/86